



Innovation in Skills Development in SMEs

Highlights

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Innovation in skills development provides new ways of talent development for small and medium-sized enterprises (SMEs). While SMEs are crucial for economic development, employment and job creation they face continuing barriers to developing their human resources. Training & skills development is significantly lower in SMEs than in large enterprises – with SMEs involved in up to 50% less training than larger firms. The pool of SME workers requiring further education and training is significant. However, SMEs often find it difficult to support formal learning activities due to their small size.

This document outlines the results of an OECD study on Leveraging Training and Skills Development in SMES. The study examines access to training by SMEs across seven regions in six OECD countries. The seven regions participating in the project are East Flanders (Belgium), the industrial zone OSTIM in Ankara (Turkey), Canterbury (New Zealand), the Zaglebie sub-region (Poland), the West Midlands region (United Kingdom), and Quebec and Manitoba in Canada. The project contributed to the OECD Skills Strategy.

Key policy issues include:

- ✓ SMEs use both formal and informal training but they get better outcomes from informal training through use of knowledge intensive service activities (KISA). Significant variations exist across regions and employee skill levels.
- ✓ Training for highly skilled employees focused on productivity-enhancing skills (e.g. technical and management skills, entrepreneurship), and, to the extent that they are undertaken at all, green skills. This applies to both manufacturing and service firms.
- ✓ Market forces are the main drivers for skills development in firms, particularly informal skills development. They result from in-house demands arising from product development or production needs, or as the result of financial adjustments.
- ✓ “Growth potential” SMEs are most likely to take up opportunities in the green economy. Highly innovative firms are more likely to participate in innovative activity for the “green” economy, and also have a stronger focus on entrepreneurial skills.

Different Factors Drive Training Activities in SMEs

A number of different factors drive training activities for SMEs:

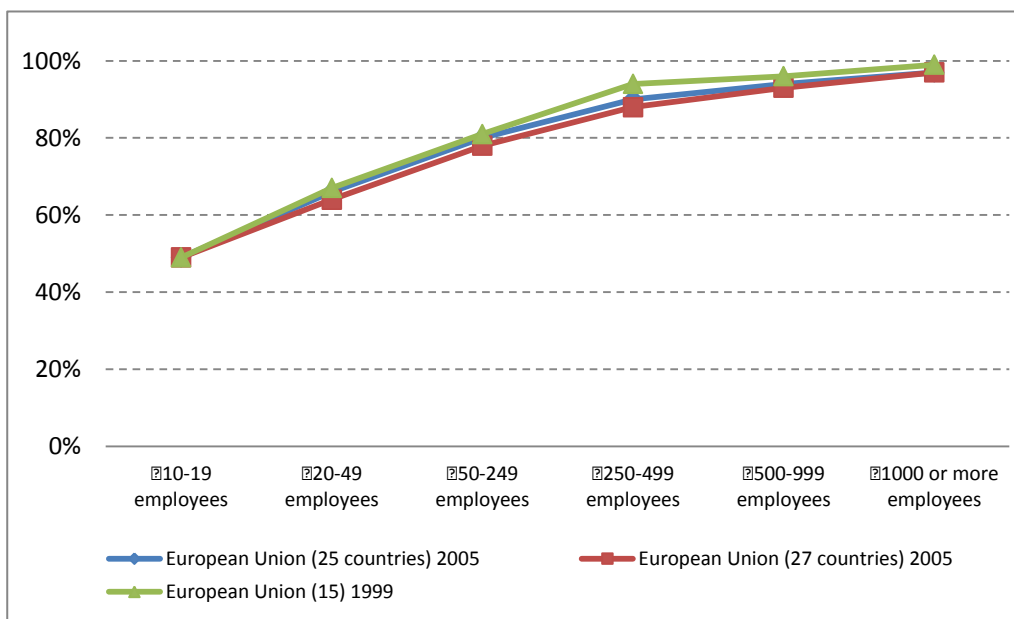
- ✓ For firms it is the market, the need to remain competitive in what is offered to customers;
- ✓ For employees it is acquiring skills that can lead to better jobs and remuneration;
- ✓ For communities, the driver is to create dynamic industrial and labour markets that survive economic downturns and provide a variety of employment opportunities and increased local development.

Factors driving SME's training activities: market competitiveness; employability; robust firms with local jobs & development.

The size determinant: SMEs Participate Less in Training

While there is evidence that skills and training policies have positive effects on large firms, their impact on SMEs appears to be limited, as is their effectiveness for, and indeed ability to reach, the lower skilled workers. Policies and programmes targeted at SMEs have been in existence for decades, but the gap between large and small firms still exists. Solutions to this situation require both in-depth understanding of the contexts and issues related to training within SMEs, as well as innovation in the responses to these contexts and issues. Data across OECD countries show that SMEs participation in training activities is up to 50% less than large firms. The smaller the size of the firm the wider the gap in participation in training.

Participation rates of enterprises by size, 1999 and 2005 in Europe



SMEs participation in training activities is up to 50% less than larger firms.

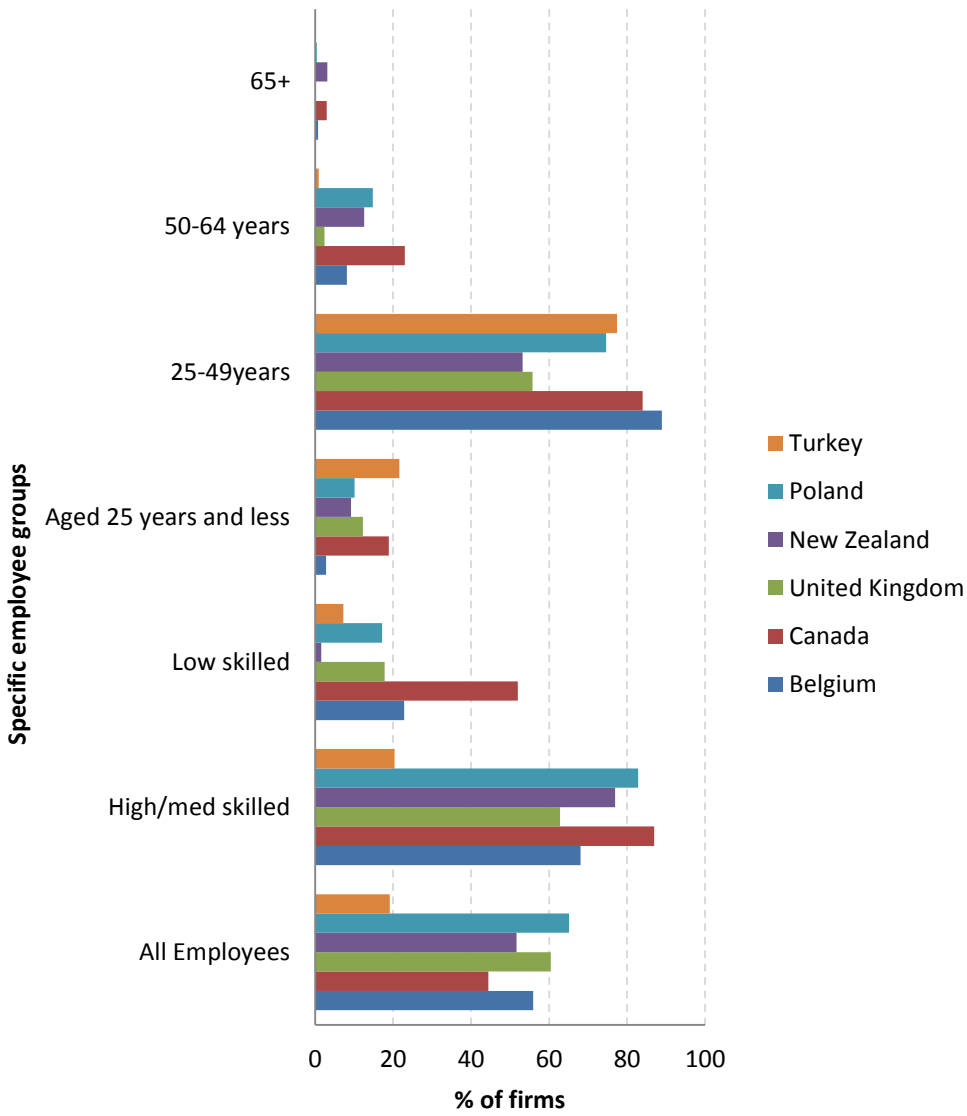
Source: EU Continuing Vocational Training Survey 3 (CVTS) (2005) and CVTS2 (1999)

Systematic access gap for older workers and low-skilled

There is also a systematic access gap: younger, better-educated workers in high-skilled occupations (such as managers, professionals and technicians) have greater access to training opportunities than the other workers.

Younger, better-educated workers in high-skilled occupations have greater access to training opportunities

Formal training participation by various employee groups*



*Similar results were achieved for informal/alternative training participation for these groups.

Market forces dominate current and future take-up of opportunities for skills development

- ✓ Firms and employees use both formal training and informal knowledge intensive service activities (KISA) ways of learning to acquire the knowledge and skills they need, particularly for their innovation and entrepreneurial processes.
- ✓ Companies report better skills development outcomes from informal training and skills development activities (particularly through participation in knowledge intensive service activities) than from formal vocational education and training.
- ✓ The main skills development areas for low skilled employees are generic, routine, occupational health and safety, and information technology (IT) skills, whereas for highly skilled employees, the focus is on productivity and competence-building skills areas, and, to the extent that they are undertaken at all, green skills.
- ✓ “Growth potential” SMEs focus on productivity enhancing skills of business planning, management and technical skills and participate in informal training twice as much as other companies.
- ✓ Market forces are the main drivers for skills development in firms, particularly informal skills development, which result from in-house demands arising from product development or production needs, as the result of financial adjustments, or from participation in external private sector activities with clients and suppliers.
- ✓ Although training access for innovative firms is similar to all firms, highly innovative firms are more likely to participate in skills development activity for the “green” economy, and also have a stronger focus on entrepreneurial skills.

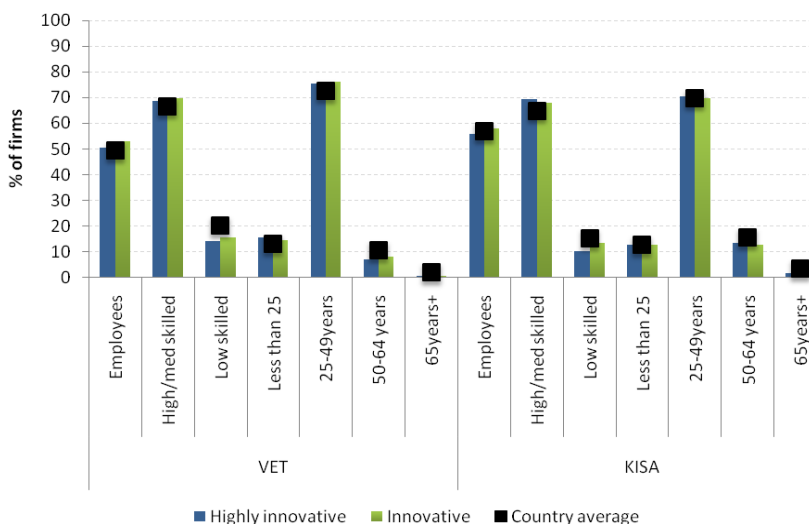
Better outcomes from informal training.

‘Growth potential’ SMEs’ training is for productivity enhancement.

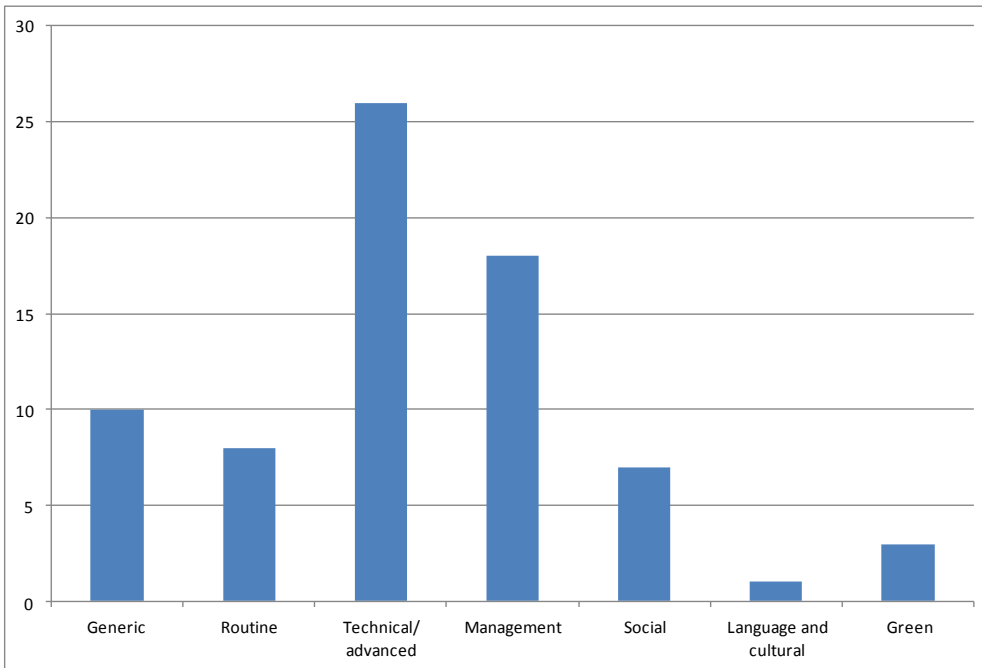
Market forces the main drivers for training.

Innovative firms participate in ‘green’ economy.

Participation in skills development activities within innovative firms



Skills required by firms¹



Skills development is a resource intensive activity for SMEs

Skills development is a resource intensive activity, attention must be paid to demonstrating the benefits for firms of participating in training activities – in other words, the returns on their training and skills development investments must be sufficient to offset the costs. Public investments in training activities are also finite and should focus on areas where the return on public investment is highest.

Specific areas of action include:

- ✓ *Co-ordinating public policy across local, regional and national levels* in order to avoid the confusion experienced by SMEs in identifying their training needs and assessing the best options for their businesses.
- ✓ Including evidence gathered from previous programme evaluations and/or pilot studies of the *costs and benefits of training activities*, as part of advice and activities provided to SMEs.
- ✓ *Encourage co-investments by the businesses receiving publicly funded training advice and activities*. These co-investments include both financial and in-kind activities (these could include providing advisory services, evaluating publicly funded activities in which they have participated). Incorporating some private cost components, either financial or in-kind, into the provision of training advice and activities encourages firms to apply investment decision-making to their training activities. This in turn will provide market pressure to the provision of training advice and activities because, if SMEs are assessing training activities on this basis, they will only use activities that deliver returns on their investment.

Help identify training needs & options.

Provide cost analysis data.

Encourage co-investments; both financial and in-kind.

¹ Counts of case study firms across key variables.

Informal/alternative (KISA) training skills development needs to be recognised and encouraged

The central policy implication emerging from this study is that there needs to be some means of recognition, such as qualifications, of skills developed informally (e.g. through interaction), in much the same way as there is for formal skills development. This does not mean a shift away from formal training for employees – there are instances where formal training is appropriate, for example, apprenticeships. About 80% of the current workforce will still be in the labour market in ten years' time; they thus represent a central source of skills. Informal skills development represents a flexible and adaptive route for skills development within this population.

Informal training requires some means of recognition such as qualifications.

Recognition of informal training through qualifications also offers a pathway for skills development as part of an employee's life-long learning activities. Firms use informal skill development more than formal skill development and they are obtaining better outcomes from informal activities than from formal activities. In order to increase both the stock and quality of skills for SMEs, the qualifications system needs to find a way to recognise and encourage informal skills development.

Specific areas of action include:

- ✓ *Incentives need to be provided to encourage formal training organisations and providers to develop pathways for recognising informal skills development with qualifications.* Training for SMEs is very supply-side driven, SMEs do not have the resources or volume to demand changes to the training providers' activities. Training providers need to become more responsive to SME demand, but also need to be given the resources to achieve this. Training providers face a competitive marketplace; if we look at this on a fee-per-student basis, a profit margin is easier to achieve from servicing larger firms than smaller firms. Incentives need to be provided to re-balance this dynamic.
- ✓ *Recognising informal skills development through qualifications will demand a greater role from industry and employee organisations.* One of the most often mentioned barriers stopping SMEs from participating in training (of both types) is lack of time. Although firms can demand more flexible training provision, they will again be time-constrained in their ability to participate in the development of frameworks that will see the translation of informal skills development into qualifications. However, training providers will need to receive this input from SMEs in order to encourage them to develop such qualifications; industry associations and employee organisations are in an ideal position to bridge this gap.
- ✓ *Further resources need to be invested in researching and understanding the dynamics of informal skills development.* Informal skills development should be a theme for the follow-up studies of the OECD Skills Strategy,² in order to provide further evidence and exploration of sectoral and national variations.

Resources are needed to develop informal training qualifications.

Industry organisations can assist with informal training qualifications development.

More research into informal training needed.

² Recognising the complexity of skills policies on the one hand and the potential for peer learning given the diversity of approaches to skills policies on the other, the OECD has developed a global Skills Strategy, aiming to integrate the data and knowledge about skills from different work areas across the Organisation and to support countries in identifying the strengths and weaknesses of their national skills policies and developing better skills policies for economic growth and social inclusion.

Market forces need to be allowed to inform policy action

The study survey results showed that both in-house and external market forces were the main drivers for firms' training activities within their supply-chain or industry, rather than public sector skill development programmes. However, of itself this does not negate the need for government intervention in the provision of training support. There are many reasons in the areas of both market failure, and public good, where the market provides, and will continue to provide, suboptimal training and skills development, particularly for marginalised groups or individuals.

Market forces drive training activities.

However, where a public policy intervention has an objective of requiring an action from SMEs, it is important to understand why and when firms are likely to act. Policy interventions need to be directed towards the points at which SMEs are making decisions about skills development and training activities within their firms. These will be different to the decision points at which employees seek skills development. Where possible, public sector activity aimed at increasing SME's participation in skills development activities should target areas where the market fails SMEs (e.g. a lack of information and incentives for training providers to offer customised training for SMEs), rather than public good objectives (e.g. training of employees in SMEs).

Policy interventions should focus on where markets fail SMEs (e.g. customised training).

Specific actions include:

- ✓ *The development of a framework for acknowledgement of informal skills development* through qualifications requires co-ordinated action from policy makers.
- ✓ *Policy interventions should be accompanied by rigorous evaluations* that can show the impact of policy interventions against objectives, and provide important evidence to SMEs of the value of their training investments.
- ✓ *Evaluations should be designed to encourage policy innovation*, not prevent it through risk averseness. The purpose of evaluation is not to ensure positive results, but to ensure lessons are learned and these are communicated.

Develop an informal training qualifications framework.

Evaluations needed to show the value of training and ensure positive results.

Local responses can be recognised, but a uniform focus on productivity skills is required

The characteristics of skill development vary across local areas and regions, and are strongly influenced by industrial concentrations and existing skill levels. The regional workshops, combined with the survey analysis, revealed the importance of the local context when it comes to collaboration between skills development activities in firms and training organisations.

Local context is important for collaboration considerations.

However, there are some fundamental skills related to productivity, entrepreneurship, and, increasingly, green skills, which should become foundation skills sets for all firms. Local customisation should be encouraged to meet specific local needs, but not at the expense of these foundation and highly transferable skills.

Fundamental skills are valuable and transferable.

Specific actions include:

- ✓ The *design and dissemination of skills audits and other assessment tools to enable systematic and continuous advice to SMEs*. Increasing participation in productivity enhancing skills should be a focus.
- ✓ *Allow customisation of the above tools by members of local skills ecosystems* (including local networks, value-chain partners, business organisations, trade unions and other public agency intermediaries) to provide a varied local response.
- ✓ *Develop local skills ecosystems* – partnerships between training providers, local authorities, industry representations, trade unions and other labour market providers - have the ability to combine a diverse range of policy instruments that come from regional, national and supra-national sources and make them fit-for-purpose in their local community. This role is not widely recognised or resourced within the wider policy community and progress should be made to improve this.

Provide assessment tools, which can be locally customised.

Local skills ecosystems can combine a range of policy instruments.

A community of practice should be established

The need for regional customisation should be supported by a common platform of knowledge of how SMEs use training to develop skills within their workforces and what works, does not work and is best practice activity across different regions. Understanding both variation and best practice is an important task for policy makers, as it will allow them to select a mix of activities to encourage skills development in their particular circumstances and understand how and why these activities may encourage skills development in SMEs.

Support from a common platform of local knowledge and best practice.

The establishment of a community of practice of regional skills development for knowledge sharing between regions will allow for the transmission and interpretation of best practice evidence.

More information about the project can be found at:

<http://www.oecd.org/cfe/leed/tsmes.htm>

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